

DENISON COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the Denison Community School District in Denison, Iowa.

The District's revenues totaled \$17,858,673 for the year ended June 30, 2006, a 4.31 percent increase from the prior year. Revenues included \$8,130,088 in unrestricted state grants, \$4,242,492 in local tax, operating grants, contributions, and restricted interest of \$2,624,891, charges for service of \$1,872,345, capital grants and contributions and restricted interest of \$415,320 and \$231,753 in unrestricted interest.

Expenses for district operations totaled \$16,220,283 a 4.34 percent increase from the prior year. Expenses included \$5,726,894 for regular instruction, \$1,875,624 for special instruction and \$2,476,042 for other instruction.

A copy of the audit report is available for review in the District Secretary's Office, the Office of Auditor of State, and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
District-Wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15
Governmental Fund Financial Statements:		
Balance Sheet	C	16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	17
Statement of Revenues, Expenditures and Changes in Fund Balances	E	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	19
Propriety Fund Financial Statements:		
Statement of Net Assets	G	20
Statement of Revenues, Expenses and Changes in Net Assets	H	21
Statement of Cash Flows	I	22
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	23
Statement of Changes in Fiduciary Net Assets	K	24
Notes to Financial Statements		25-36
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual (GAAP Basis) - All Governmental Funds and Proprietary Fund		37
Notes to Required Supplementary Information - Budgetary Reporting		38
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	40
Schedule of Changes in Student Activity Accounts	3	41-42
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	5	44
Schedule of Expenditures of Federal Awards	6	45-46
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		47-48
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance		49-50
Schedule of Findings and Questioned Costs		51-56

Denison Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Rod Bradley	President	2006
Craig Dozark	Vice President	2006
Brenda Martens	Board Member	2007
Kris Rowedder	Board Member	2005
Mark Johnson	Board Member	2005
Board of Education (After September 2005 Election)		
Rod Bradley	President	2006
Craig Dozark	Vice President	2006
Brenda Martens	Board Member	2007
Kris Rowedder	Board Member	2008
Mark Johnson	Board Member	2008
School Officials		
Mike Pardun	Superintendent	2006
Larry Struck	Business Manager	2006
Ruth Frazier	District Secretary	2006
Terry Prickett	District Treasurer	2006
Mundt, Franck and Schumacher	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Denison Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Denison Community School District, Denison, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Denison Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated August 24, 2006 on our consideration of Denison Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 38 are not required parts of the basic financial statements, but are supplementary

Members American Institute & Iowa Society of Certified Public Accountants

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Denison Community School District's basic financial statements. We previously audited the year ended June 30, 2005 financial statements while another auditor previously audited the financial statements for the two years ended June 30, 2004, (none of which are presented herein) in accordance with the standards referred to in the second paragraph of this report, and unqualified opinions were expressed on those financial statements. The supplemental information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

August 24, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Denison Community School District provides the Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$13,637,167 in fiscal 2005 to \$14,824,044 in fiscal 2006, while General Fund expenditures increased from \$13,724,984 in fiscal 2005 to \$14,380,262 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$319,667 in fiscal 2005 to a balance of \$768,528 in fiscal 2006, an 11.4% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local, state and federal sources in fiscal 2006. The increase in expenditures was due primarily to increases in negotiated salaries and benefits.
- The District's School Nutrition Fund generated \$11,773 in profits, which in most part is due to the increase in federal revenues during the year. This increase brings the fund balance to \$381,865 at year-end.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Denison Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Denison Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Denison Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Denison Community School District Annual Financial Report

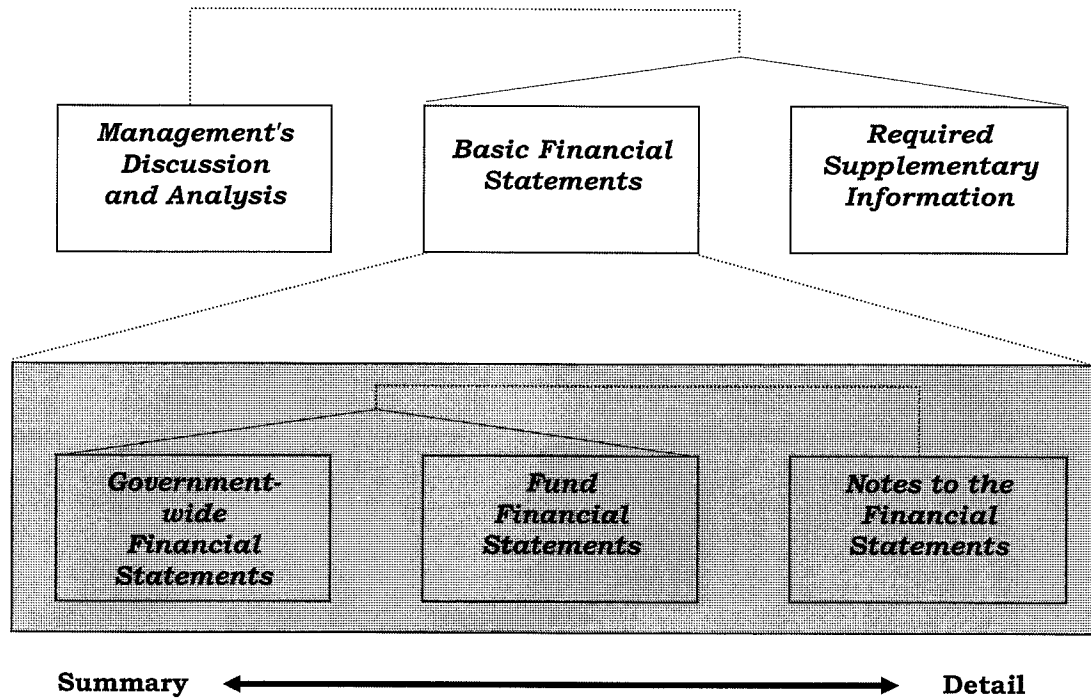


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund - These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures. Another example is the Iowa Academic Decathlon.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 17,725,556	9,289,068	295,407	290,593	18,020,963	9,579,661	88.12%
Capital assets	6,998,154	5,678,803	95,024	91,697	7,093,178	5,770,500	22.92%
Total assets	24,723,710	14,967,871	390,431	382,290	25,114,141	15,350,161	63.61%
Long-term obligations	9,230,341	262,981	0	0	9,230,341	262,981	100.00%
Other liabilities	6,383,716	7,221,854	8,566	12,198	6,392,282	7,234,052	-11.64%
Total liabilities	15,614,057	7,484,835	8,566	12,198	15,622,623	7,497,033	108.38%
Net assets:							
Invested in capital assets, net of related debt	6,998,154	5,678,803	95,024	91,697	7,093,178	5,770,500	22.92%
Restricted	1,320,446	1,495,030	0	0	1,320,446	1,495,030	-11.68%
Unrestricted	791,053	309,203	286,841	278,395	1,077,894	587,598	83.44%
Total net assets	\$ 9,109,653	7,483,036	381,865	370,092	9,491,518	7,853,128	20.86%

The District's combined net assets increased by 20.86%, or \$1,638,390, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased 11.68%, or \$174,584, over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$490,296, or 83.44%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 1,561,065	1,795,507	311,280	308,637	1,872,345	2,104,144	-11.02%
Operating grants and contributions and restricted interest	2,075,241	1,910,954	549,650	525,590	2,624,891	2,436,544	7.73%
Capital grants and contributions and restricted interest	415,320	593,096	0	0	415,320	593,096	-29.97%
General revenues:							
Property tax	3,453,148	3,445,100	0	0	3,453,148	3,445,100	0.23%
Local option sales and services tax	789,344	919,698	0	0	789,344	919,698	-14.17%
Unrestricted state grants	8,130,088	7,533,625	0	0	8,130,088	7,533,625	7.92%
Other	564,396	84,373	9,141	3,610	573,537	87,983	551.87%
Total revenues	16,988,602	16,282,353	870,071	837,837	17,858,673	17,120,190	4.31%
Program expenses:							
Governmental activities:							
Instructional	10,078,560	9,983,188	0	0	10,078,560	9,983,188	0.96%
Support services	4,367,840	4,163,745	0	0	4,367,840	4,163,745	4.90%
Non-instructional programs	0	1,978	858,298	785,725	858,298	787,703	8.96%
Other expenses	915,585	611,386	0	0	915,585	611,386	49.76%
Total expenses	15,361,985	14,760,297	858,298	785,725	16,220,283	15,546,022	4.34%
Changes in net assets	1,626,617	1,522,056	11,773	52,112	1,638,390	1,574,168	4.08%
Beginning net assets	7,483,036	5,960,980	370,092	317,980	7,853,128	6,278,960	25.07%
Ending net assets	\$ 9,109,653	7,483,036	381,865	370,092	9,491,518	7,853,128	20.86%

In fiscal 2006, property tax and unrestricted state grants account for 68.2% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 98.9% of the revenue from business type activities.

The District's total revenues were approximately \$17.9 million of which \$17.0 million was for governmental activities and less than \$0.9 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.31% increase in revenues and a 4.34% increase in expenses. Unrestricted state grants increased \$596,463 to fund increases in expenditures. The increase in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$16,988,602 and expenses were \$15,361,985.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5

	Total and Net Cost of Governmental Activities	
	Total Cost of Services	Net Cost of Services
Instruction	\$ 10,078,560	7,055,066
Support services	4,367,840	4,329,020
Other expenses	915,585	(73,727)
Totals	<u>\$ 15,361,985</u>	<u>11,310,359</u>

- The cost financed by users of the District's programs was \$1,561,065.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,075,241.
- The net cost of governmental activities was financed with \$3,453,148 in local tax, \$789,344 in local option sales and service tax, \$8,130,088 in state grants and \$222,612 in interest income.

Business-Type Activities

Revenues of the District's business-type activity were \$870,071 and expenses were \$858,298. The District's business-type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Denison Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$11,196,077, above last year's ending fund balances of \$1,891,141. However, the primary reasons for the increase in the combined fund balances is that the proceeds from the sale of \$5,000,000 of general obligation bonds and \$4,000,000 of revenue bonds was placed in the Capital Projects Fund.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in state revenues resulted in an increase in revenues. The increase in salaries and benefits is one of the reasons for the increase in expenditures. The increase in revenues was enough to offset the increase in expenditures; the net result was an increase in fund balance from \$319,667 in fiscal 2005 to \$768,528 in fiscal 2006.
- The Capital Projects fund balance overall increased from \$874,711 in fiscal 2005 to \$9,563,615 in fiscal 2006. This significant increase is due to \$5,000,000 of general obligation bonds and \$4,000,000 of revenue bonds being placed in the Capital Projects Fund.

-
- The Special Revenue - Physical Plant and Equipment Levy (PPEL) fund balance decreased \$243,702, due in part due to the District paying for elementary building improvements and updates. Increased fund expenditures coupled with decreased sales tax revenues as compared to fiscal year 2005, guaranteed the decrease in fund balance for fiscal 2006.

Proprietary Fund Highlights

The School Nutrition Fund used its increase in federal revenues to offset the continued increase in food costs, and salaries and benefits. Overall, net assets increased from \$370,092 at June 30, 2005 to \$381,865 at June 30, 2006, representing an increase of 3.2%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$234,515 less than budgeted revenues, a variance of 1%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the timing of expenditures at year end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$7,093,178, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net increase of 22.92% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$337,681.

The original cost of the District's capital assets was \$12,347,639. Governmental funds account for \$12,115,098 with the remainder of \$232,541 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land category. The District's land totaled \$183,780 at June 30, 2006. This increase resulted from the District buying land to construct the new middle school.

Figure A-6

	Capital Assets, Net of Depreciation							
	Governmental Activities		Business-type Activities		Total District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2006	2005	2006	2005	2006	2005	2005-06	
Land	\$ 183,780	113,780	0	0	183,780	113,780	61.52%	
Construction in progress	559,738	785,827	0	0	559,738	785,827	-28.77%	
Buildings	5,431,346	4,095,862	0	0	5,431,346	4,095,862	32.61%	
Land improvements	374,132	300,340	0	0	374,132	300,340	24.57%	
Machinery and equipment	449,158	382,994	95,024	91,697	544,182	474,691	14.64%	
Total	\$ 6,998,154	5,678,803	95,024	91,697	7,093,178	5,770,500	22.92%	

Long-Term Debt

At June 30, 2006, the District had \$9,230,341 in general obligation, revenue, and other long-term debt outstanding. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

In December, 2005, voters of Denison Community School District authorized the issuance of \$5,000,000 in general obligation bonds as well as \$4,000,000 in revenue bonds to pay for the construction of a new middle school and renovations of the existing middle school. The District had total outstanding bonded indebtedness of \$9,000,000 as of June 30, 2006.

Figure A-7

	Outstanding Long-Term Obligations			
	Total School District		Total Change	
	June 30,		June 30,	
	2006	2005	2005-06	
General obligation bonds	5,000,000	0	100.0%	
Revenue bonds	4,000,000	0	100.0%	
Early retirement	230,341	262,981	-12.4%	
Total	\$ 9,230,341	262,981	3409.9%	

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future:

- Although the District was expecting continued increases in certified enrollment, the District experienced a decline of 40 students for fiscal year 2006.
- \$5,000,000 in General Obligation Bonds and \$4,000,000 in Sales Tax Revenue Bonds were sold to pay for construction of a new middle school as well as renovate the existing middle school.

-
- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District. Also continued budget concerns at state level will affect future projections. The District will continue to be forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Larry Struck, Business Manager, Denison Community School District, 819 North 16th Street, Denison, Iowa, 51442.

BASIC FINANCIAL STATEMENTS

DENISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 898,749	0	898,749
Other	12,127,642	280,262	12,407,904
Receivables:			
Property tax:			
Delinquent	56,021	0	56,021
Succeeding year	3,780,389	0	3,780,389
Income surtax	176,073	0	176,073
Accounts	67,442	6,240	73,682
Accrued interest:			
ISCAP(Note 4)	280	0	280
Due from other governments	603,571	0	603,571
Inventories	15,389	8,905	24,294
Capital assets, net of accumulated depreciation(Note 5)	6,998,154	95,024	7,093,178
TOTAL ASSETS	24,723,710	390,431	25,114,141
LIABILITIES			
Accounts payable	412,726	3,478	416,204
Salaries and benefits payable	1,253,213	0	1,253,213
ISCAP warrants payable(Note 4)	900,000	0	900,000
ISCAP interest payable(Note 4)	229	0	229
ISCAP unamortized premium	6,849	0	6,849
Accrued interest payable	30,310	0	30,310
Deferred revenue:			
Succeeding year property tax	3,780,389	0	3,780,389
Other	0	5,088	5,088
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	160,000	0	160,000
Revenue bonds payable	300,000	0	300,000
Early retirement payable	45,546	0	45,546
Portion due after one year:			
General obligation bonds payable	4,840,000	0	4,840,000
Revenue bonds payable	3,700,000	0	3,700,000
Early retirement payable	184,795	0	184,795
TOTAL LIABILITIES	15,614,057	8,566	15,622,623
NET ASSETS			
Investment in capital assets, net of related debt	6,998,154	95,024	7,093,178
Restricted for:			
Capital projects	934,622	0	934,622
Physical plant and equipment levy	158,171	0	158,171
Other special revenue purposes	227,653	0	227,653
Unrestricted	791,053	286,841	1,077,894
TOTAL NET ASSETS	\$ 9,109,653	381,865	9,491,518

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs						Total
Governmental activities:						
Instruction:						
Regular instruction	\$ 5,726,894	623,340	1,361,790	0	(3,741,764)	0
Special instruction	1,875,624	326,452	117,235	0	(1,431,937)	0
Other instruction	2,476,042	592,677	2,000	0	(1,881,365)	0
	10,078,560	1,542,469	1,481,025	0	(7,055,066)	0
Support services:						
Student services	496,623	0	0	0	(496,623)	0
Instructional staff services	502,127	0	0	0	(502,127)	0
Administration services	1,433,017	0	0	0	(1,433,017)	0
Operation and maintenance of plant services	1,294,527	0	0	0	(1,294,527)	0
Transportation services	641,546	18,596	20,224	0	(602,726)	0
	4,367,840	18,596	20,224	0	(4,329,020)	0
Other expenditures:						
Facilities acquisitions	101,414	0	0	415,320	313,906	0
Long-term debt interest	30,407	0	0	0	(30,407)	0
AEA flowthrough	573,992	0	573,992	0	0	0
Depreciation (unallocated)*	209,772	0	0	0	(209,772)	0
	915,585	0	573,992	415,320	73,727	0
Total governmental activities	15,361,985	1,561,065	2,075,241	415,320	(11,310,359)	0
Business-Type activities:						
Non-instructional programs:						
Nutrition services	858,298	311,280	549,650	0	0	2,632
						2,632
Total	\$ 16,220,283	1,872,345	2,624,891	415,320	(11,310,359)	2,632
General Revenues:						
Property tax levied for:						
General purposes				\$ 3,375,414	0	3,375,414
Capital outlay				77,734	0	77,734
Local option sales and services tax				789,344	0	789,344
Unrestricted state grants				8,130,088	0	8,130,088
Unrestricted investment earnings				222,612	9,141	231,753
Sale of equipment and materials				5,079	0	5,079
Premium on sale of bonds				60,887	0	60,887
Other				275,818	0	275,818
Total general revenues				12,936,976	9,141	12,946,117
Changes in net assets				1,626,617	11,773	1,638,390
Net assets beginning of year				7,483,036	370,092	7,853,128
Net assets end of year				\$ 9,109,653	381,865	9,491,518

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments				
ISCAP (Note 4)	\$ 898,749	0	0	898,749
Other	1,939,275	9,315,322	873,045	12,127,642
Receivables:				
Property tax				
Delinquent	53,397	0	2,624	56,021
Succeeding year	3,230,753	0	549,636	3,780,389
Income surtax	176,073	0	0	176,073
Accounts	14,602	36,377	16,463	67,442
Accrued interest:				
ISCAP (Note 4)	280	0	0	280
Due from other governments	357,061	238,318	8,192	603,571
Inventories	15,389	0	0	15,389
TOTAL ASSETS	\$ 6,685,579	9,590,017	1,449,960	17,725,556
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 349,934	26,402	36,390	412,726
Salaries and benefits payable	1,253,213	0	0	1,253,213
ISCAP warrants payable (Note 4)	900,000	0	0	900,000
ISCAP interest payable (Note 4)	229	0	0	229
ISCAP unamortized premium	6,849	0	0	6,849
Deferred revenue:				
Succeeding year property tax	3,230,753	0	549,636	3,780,389
Income surtax	176,073	0	0	176,073
Total liabilities	5,917,051	26,402	586,026	6,529,479
Fund balances:				
Reserved for:				
Inventories	15,389	0	0	15,389
Undesignated:				
General	753,139	0	0	753,139
Physical plant and equipment levy	0	0	158,171	158,171
Capital projects	0	9,563,615	0	9,563,615
Management levy	0	0	76,793	76,793
Debt Service	0	0	401,317	401,317
Other special revenue purposes	0	0	227,653	227,653
Total fund balances	768,528	9,563,615	863,934	11,196,077
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,685,579	9,590,017	1,449,960	17,725,556

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 16)	\$ 11,196,077
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	6,998,154
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	176,073
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(30,310)
Long-term liabilities, including general obligation bonds, revenue bonds and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(9,230,341)
Net assets of governmental activities (page 14)	<u>\$ 9,109,653</u>

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 3,300,286	0	152,862	3,453,148
Local option sales and service tax	0	789,344	0	789,344
Tuition	949,792	0	0	949,792
Other	370,766	95,507	645,430	1,111,703
Intermediate sources	1,495	0	0	1,495
State sources	9,382,045	102,369	129	9,484,543
Federal sources	819,660	0	312,951	1,132,611
Total revenues	14,824,044	987,220	1,111,372	16,922,636
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	5,713,674	0	23,695	5,737,369
Special instruction	1,876,874	0	0	1,876,874
Other instruction	1,924,745	0	570,115	2,494,860
	9,515,293	0	593,810	10,109,103
Support services:				
Student services	499,623	0	0	499,623
Instructional staff services	502,824	0	0	502,824
Administration services	1,328,034	92,908	6,643	1,427,585
Operation and maintenance of plant services	1,269,521	0	29,685	1,299,206
Transportation services	690,975	0	15,887	706,862
	4,290,977	92,908	52,215	4,436,100
Other expenditures:				
Facilities acquisitions	0	866,295	698,079	1,564,374
Long-term debt:				
Interest and fiscal charges	0	0	97	97
AEA flowthrough	573,992	0	0	573,992
	573,992	866,295	698,176	2,138,463
Total expenditures	14,380,262	959,203	1,344,201	16,683,666
Excess(deficiency) of revenues over(under) expenditures	443,782	28,017	(232,829)	238,970
Other financing sources(uses):				
Transfer in	0	0	400,000	400,000
Transfer out	0	(400,000)	0	(400,000)
Sale of bonds	0	9,000,000	0	9,000,000
Premium on bonds	0	60,887	0	60,887
Sale of equipment and materials	5,079	0	0	5,079
Total other financing sources(uses)	5,079	8,660,887	400,000	9,065,966
Net change in fund balances	448,861	8,688,904	167,171	9,304,936
Fund balance beginning of year	319,667	874,711	696,763	1,891,141
Fund balance end of year	\$ 768,528	9,563,615	863,934	11,196,077

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ 9,304,936

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceed depreciation expense and loss on disposal in the current year, as follows:

Expenditures for capital assets	\$ 1,645,163	
Depreciation expense	<u>(325,812)</u>	1,319,351

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.

Issued	(9,000,000)
--------	-------------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(30,310)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	<u>32,640</u>
------------------	---------------

Changes in net assets of governmental activities (page 15)	<u>\$ 1,626,617</u>
--	---------------------

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 280,262
Receivables:	
Accounts	6,240
Inventories	8,905
Capital assets, net of accumulated depreciation(note 5)	95,024
TOTAL ASSETS	<u>390,431</u>
LIABILITIES	
Accounts payable	3,478
Deferred revenue:	
Other	5,088
TOTAL LIABILITIES	<u>8,566</u>
NET ASSETS	
Investment in capital assets, net of related debt	95,024
Unrestricted	286,841
TOTAL NET ASSETS	<u>\$ 381,865</u>

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2006

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 311,280
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	292,636
Benefits	44,250
Services	14,849
Supplies	490,821
Other	3,873
Depreciation	11,869
TOTAL OPERATING EXPENSES	858,298
OPERATING LOSS	(547,018)
NON-OPERATING REVENUES:	
Interest	9,141
State sources	11,366
Federal sources	538,284
TOTAL NON-OPERATING REVENUES	558,791
Net income	11,773
Net assets beginning of year	370,092
Net assets end of year	\$ 381,865

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 308,328
Cash received from miscellaneous operating activities	817
Cash payments to employees for services	(336,886)
Cash payments to suppliers for goods or services	(460,866)
Net cash used in operating activities	<u>(488,607)</u>
Cash flows from non-capital financing activities:	
State grants received	11,366
Federal grants received	487,782
Net cash provided by non-capital financing activities	<u>499,148</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(15,196)</u>
Cash flows from investing activities:	
Interest on investments	<u>9,141</u>
Net increase in cash and cash equivalents	4,486
Cash and cash equivalents at beginning of year	<u>275,776</u>
Cash and cash equivalents at end of year	<u><u>\$ 280,262</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (547,018)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	50,502
Depreciation	11,869
Decrease in inventories	1,015
Increase in accounts receivable	(1,343)
Decrease in accounts payable	(2,840)
Decrease in deferred revenue	(792)
Net cash used in operating activities	<u><u>\$ (488,607)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 280,262</u></u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2006, the District received Federal commodities valued at \$50,502.

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Private Purpose Trust	Agency
	Scholarship	
ASSETS		
Cash and pooled investments	\$ 12,000	30,434
Accounts receivable	0	147
Due from other governments	0	800
TOTAL ASSETS	<u>12,000</u>	<u>31,381</u>
LIABILITIES		
Accounts payable	0	17,774
Due to other groups	0	13,607
TOTAL LIABILITIES	<u>0</u>	<u>31,381</u>
NET ASSETS		
Reserved for scholarships	<u>\$ 12,000</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2006

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
Total additions	<u>0</u>
Total deductions	<u>0</u>
Change in net assets	0
Net assets beginning of year	<u>12,000</u>
Net assets end of year	<u>\$ 12,000</u>

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Denison Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served primarily includes the Cities of Denison, Kiron, Deloit, Iowa, and a small portion of rural Ida County and the predominate agricultural territory of Crawford County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Denison Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Denison Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Ida and Crawford County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District's proprietary funds are the Enterprise, School Nutrition Fund. The Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets help by the District as an agent for individuals, private organizations. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB

pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	
Buildings	\$ 2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial

statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the other expenditures functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 8,517,597</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investor's Service.

(3) Interfund Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 400,000

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/2006	6/28/2007	\$ 898,749	280	900,000	229

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005/06A	\$ 0	1,100,000	1,100,000	0

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 113,780	70,000	0	183,780
Construction in progress	785,827	559,738	785,827	559,738
Total capital assets not being depreciated	899,607	629,738	785,827	743,518
Capital assets being depreciated:				
Buildings	7,717,687	1,515,258	0	9,232,945
Land improvements	516,589	103,791	0	620,380
Machinery and equipment	1,438,094	182,203	102,042	1,518,255
Total capital assets being depreciated	9,672,370	1,801,252	102,042	11,371,580
Less accumulated depreciation for:				
Buildings	3,621,825	179,774	0	3,801,599
Land improvements	216,249	29,999	0	246,248
Machinery and equipment	1,055,100	116,039	102,042	1,069,097
Total accumulated depreciation	4,893,174	325,812	102,042	5,116,944
Total capital assets being depreciated, net	4,779,196	1,475,440	0	6,254,636
Governmental activities capital assets, net	\$ 5,678,803	2,105,178	785,827	6,998,154
Business-type activities:				
Machinery and equipment	\$ 217,345	15,196	0	232,541
Less accumulated depreciation	125,648	11,869	0	137,517
Business-type activities capital assets, net	\$ 91,697	3,327	0	95,024

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 217,345	15,196	0	232,541
Less accumulated depreciation	125,648	11,869	0	137,517
Business-type activities capital assets, net	<u>\$ 91,697</u>	<u>3,327</u>	<u>0</u>	<u>95,024</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 1,540
Other	2,172
Support services:	
Instructional services	1,178
Administration	5,310
Operation and maintenance	6,396
Transportation	99,444
	<u>116,040</u>
Unallocated depreciation	<u>209,772</u>
Total governmental activities depreciation expense	<u>\$ 325,812</u>
Business-type activities:	
Food services	<u>\$ 11,869</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 0	5,000,000	0	5,000,000	160,000
Revenue Bonds	0	4,000,000	0	4,000,000	300,000
Early Retirement	262,981	43,000	75,640	230,341	45,546
Total	<u>\$ 262,981</u>	<u>9,043,000</u>	<u>75,640</u>	<u>9,230,341</u>	<u>505,546</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates		Principal	Interest	Total
2007	4.25	% \$	160,000	208,634	368,634
2008	4.25		170,000	201,834	371,834
2009	4.25		175,000	194,608	369,608
2010	4.25		185,000	187,172	372,172
2011	4.25		195,000	179,308	374,308
2012	4.25		200,000	171,022	371,022
2013	4.25		210,000	162,522	372,522
2014	4.25		220,000	153,596	373,596
2015	4.50		230,000	144,246	374,246
2016	5.00		240,000	133,896	373,896
2017	3.85		250,000	121,896	371,896
2018	3.90		260,000	112,272	372,272
2019	3.95		270,000	102,130	372,130
2020	4.00		280,000	91,466	371,466
2021	4.05		295,000	80,266	375,266
2022	4.10		305,000	68,318	373,318
2023	4.10		320,000	55,814	375,814
2024	4.13		330,000	42,694	372,694
2025	4.13		345,000	29,082	374,082
2026	4.13		360,000	14,850	374,850
Total			\$ 5,000,000	2,455,626	7,455,626

Revenue Bonds Payable

Details of the District's June 30, 2006 local option sales and services tax revenue bonded indebtedness are as follows:

Bond Issue of May 1, 2006					
Year Ending June 30,	Interest Rates		Principal	Interest	Total
2007	3.500	% \$	300,000	103,393	403,393
2008	3.750		470,000	144,590	614,590
2009	3.750		490,000	126,965	616,965
2010	3.800		505,000	108,590	613,590
2011	4.000		525,000	89,400	614,400
2012	4.000		545,000	68,400	613,400
2013	4.000		570,000	46,600	616,600
2014	4.000		595,000	23,800	618,800
Total			\$ 4,000,000	711,738	4,711,738

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$400,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Early Retirement

The District offers a voluntary early retirement plan to any full-time District employee who is presently covered by the District's insurance program, is presently under contract, has been with the District for ten or more years, and who on July 1 of the retirement year is between the ages of fifty-five and sixty-four. Employees must complete an application which is required to be approved by the Board of Education. The District provides a minimum benefit of \$75 per month for the monthly premiums for single and family health and major medical insurance coverage. Early retirement benefits paid during the year ended June 30, 2006, totaled \$75,640. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$530,332, \$499,547 and \$481,943 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs. District contributions to ISEBA for the year ended June 30, 2006 were \$1,290,720.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$573,992 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Construction Commitment

As of June 30, 2006, costs of \$559,738 had been incurred for the construction of a new middle school and lighting for the football field. When the construction is completed, the buildings will be added to the capital assets.

(11) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, disbursements in the other expenditures function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

DENISON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary		Budgeted Amounts		Final to
	Fund Types	Fund Type	Total	Original	Final	Actual
	Actual	Actual	Actual			Variance -
						Positive
						(Negative)
Revenues:						
Local sources	\$ 6,303,987	320,421	6,624,408	6,605,378	6,605,378	19,030
Intermediate sources	1,495	0	1,495	10,000	10,000	(8,505)
State sources	9,484,543	11,366	9,495,909	9,311,844	9,311,844	184,065
Federal sources	1,132,611	538,284	1,670,895	2,100,000	2,100,000	(429,105)
Total revenues	16,922,636	870,071	17,792,707	18,027,222	18,027,222	(234,515)
Expenditures:						
Instruction	10,109,103	0	10,109,103	10,574,500	10,574,500	465,397
Support services	4,436,100	0	4,436,100	4,486,500	4,486,500	50,400
Non-instructional programs	0	858,298	858,298	919,000	919,000	60,702
Other expenditures	2,138,463	0	2,138,463	1,916,163	1,916,163	(222,300)
Total expenditures	16,683,666	858,298	17,541,964	17,896,163	17,896,163	354,199
Excess of revenues over expenditures	238,970	11,773	250,743	131,059	131,059	119,684
Other financing sources, net	9,065,966	0	9,065,966	10,000	10,000	9,055,966
Excess of revenues and other financing sources over expenditures	9,304,936	11,773	9,316,709	141,059	141,059	9,175,650
Balance beginning of year	1,891,141	370,092	2,261,233	2,177,481	2,177,481	(83,752)
Balance end of year	\$ 11,196,077	381,865	11,577,942	2,318,540	2,318,540	9,091,898

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

DENISON COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds						Total
	Manage- ment Levy	Student Activity	Expendable Trust	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ 75,496	210,055	19,757	166,420	471,728	401,317	873,045
Receivables:							
Property tax							
Current year delinquent	1,297	0	0	1,327	2,624	0	2,624
Succeeding year	100,000	0	0	80,502	180,502	369,134	549,636
Accounts	0	16,463	0	0	16,463	0	16,463
Due from other governments	0	1,343	0	6,849	8,192	0	8,192
TOTAL ASSETS	\$ 176,793	227,861	19,757	255,098	679,509	770,451	1,449,960
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 0	19,965	0	16,425	36,390	0	36,390
Deferred revenue:							
Succeeding year property tax	100,000	0	0	80,502	180,502	369,134	549,636
Total liabilities	100,000	19,965	0	96,927	216,892	369,134	586,026
Fund balances:							
Reserved for debt service	0	0	0	0	0	401,317	401,317
Unreserved, undesignated	76,793	207,896	19,757	158,171	462,617	0	462,617
Total fund balances	76,793	207,896	19,757	158,171	462,617	401,317	863,934
TOTAL LIABILITIES AND FUND BALANCES	\$ 176,793	227,861	19,757	255,098	679,509	770,451	1,449,960

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds						Total
	Manage- ment Levy	Student Activity	Expendable Trust	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 75,128	0	0	77,734	152,862	0	152,862
Other	1,067	576,414	2,908	63,627	644,016	1,414	645,430
State sources	64	0	0	65	129	0	129
Federal sources	0	0	0	312,951	312,951	0	312,951
TOTAL REVENUES	76,259	576,414	2,908	454,377	1,109,958	1,414	1,111,372
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	23,695	0	0	0	23,695	0	23,695
Other instruction	0	566,940	3,175	0	570,115	0	570,115
Support services:							
Administration services	6,643	0	0	0	6,643	0	6,643
Operation and maintenance of plant services	29,685	0	0	0	29,685	0	29,685
Transportation services	15,887	0	0	0	15,887	0	15,887
Other expenditures:							
Facilities acquisition	0	0	0	698,079	698,079	0	698,079
Long-term debt:							
Interest and fiscal charges	0	0	0		0	97	97
TOTAL EXPENDITURES	75,910	566,940	3,175	698,079	1,344,104	97	1,344,201
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	349	9,474	(267)	(243,702)	(234,146)	1,317	(232,829)
OTHER FINANCING SOURCES:							
Transfers in	0	0	0	0	0	400,000	400,000
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	349	9,474	(267)	(243,702)	(234,146)	401,317	167,171
FUND BALANCE BEGINNING OF YEAR	76,444	198,422	20,024	401,873	696,763	0	696,763
FUND BALANCE END OF YEAR	\$ 76,793	207,896	19,757	158,171	462,617	401,317	863,934

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 4,573	846	496	4,923
Musical	5,008	6,899	6,950	4,957
Drama rental	287	0	0	287
Vocal	2,171	16,297	16,077	2,391
Show choir	83	850	933	0
Band	0	17,444	17,444	0
MS band	1,444	2,261	2,727	978
Athletics	22,481	112,828	91,604	43,705
MS athletics	0	5,951	5,951	0
Cross country	3,901	3,337	4,218	3,020
Art club	814	375	259	930
Baseball club	17,140	15,159	21,071	11,228
Basketball club	1,031	4,922	5,953	0
Football club	1,817	1,468	3,180	105
World language club	603	0	107	496
Boys golf club	2,586	2,808	3,095	2,299
Girl golf club	641	480	643	478
Health career club	2,385	986	545	2,826
Industrial arts club	422	0	0	422
Softball club	898	5,453	5,211	1,140
Gatorade	0	4,781	4,156	625
Boys tennis club	0	273	257	16
Girls tennis club	467	2,598	2,766	299
Track club	0	600	442	158
Volleyball club	1,006	10,408	9,251	2,163
Wrestling club	1,077	2,465	2,386	1,156
Boys soccer	0	16	16	0
Fitness center	1,351	9,000	3,581	6,770
Girls soccer	3,763	12,110	14,635	1,238
National honor society	(223)	285	703	(641)
Do something club	260	0	45	215
Multi-cultural club	285	0	0	285
Activity ticket	0	9,541	9,541	0
Academic decathlon	(179)	650	375	96
Armory pop fund	2,631	3,815	3,523	2,923
Girls basketball camp	7,197	6,470	11,986	1,681
Business 2000	(1,029)	1,400	326	45
Change	0	60	120	(60)

DENISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Cheerleaders	1,394	8,802	10,176	20
Concessions	0	58,694	59,919	(1,225)
Elementary activity	25,750	29,726	35,572	19,904
FCA	42	917	849	110
FFA Canada trip	8,762	17,950	14,254	12,458
FFA	12,818	54,513	67,193	138
Forensics	0	3,730	3,730	0
HS faculty pop	964	3,723	3,475	1,212
Insufficient checks	(482)	599	363	(246)
FCCLA	631	4,883	3,672	1,842
Interest	0	8,729	0	8,729
MS faculty pop	1,552	2,501	2,068	1,985
MS activity	7,645	33,085	31,756	8,974
Destin. Imagin.	3,828	600	2,570	1,858
HS pop fund	0	18,656	18,656	0
Students assist	4,902	2,806	4,436	3,272
Renaissance fun	1,324	0	0	1,324
Wr cheerleaders	0	1,867	1,690	177
Student ambassador	8,878	6,352	8,082	7,148
Student senate	4,959	31,605	29,356	7,208
Yearbook	827	3,553	1,705	2,675
Girls track	527	4,840	5,056	311
Elementary faculty pop	2,235	3,491	3,585	2,141
Elementary di	0	545	139	406
Middle school di	(55)	500	135	310
High school di	73	500	18	555
Builders club	77	0	0	77
MS concessions	188	769	551	406
Peer mediation	186	0	0	186
Java den	460	0	0	460
Elementary mentor	23,947	5,000	115	28,832
Community service	50	0	0	50
Class of 09	0	87	294	(207)
Class of 06	719	1,768	3,959	(1,472)
Class of 07	898	2,727	2,662	963
Class of 08	432	60	331	161
Total	\$ 198,422	576,414	566,940	207,896

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2006

	Balance			Balance
	Beginning			End
	of Year	Additions	Deletions	of Year
ASSETS				
Cash and pooled investments	\$ 5,390	114,302	89,258	30,434
Accounts receivable	0	147	0	147
Due from other governments	0	800	0	800
TOTAL ASSETS	\$ 5,390	115,249	89,258	31,381
LIABILITIES				
Accounts payable	\$ 0	17,774	0	17,774
Due to other groups	5,390	8,217	0	13,607
TOTAL LIABILITIES	\$ 5,390	25,991	0	31,381

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	4,242,492	4,188,725	3,647,468	3,219,707
Tuition		949,792	970,408	1,176,857	1,043,826
Other		1,111,703	881,057	620,216	720,347
Intermediate sources		1,495	1,500	3,400	0
State sources		9,484,543	8,598,370	7,616,970	7,494,532
Federal sources		1,132,611	1,439,305	910,323	612,030
Total	\$	16,922,636	16,079,365	13,975,234	13,090,442
Expenditures:					
Instruction:					
Regular instruction	\$	5,737,369	5,517,950	5,312,309	5,072,937
Special instruction		1,876,874	2,271,519	1,742,179	1,578,408
Other instruction		2,494,860	1,936,036	2,294,602	2,146,493
Support services:					
Student services		499,623	434,464	410,391	383,120
Instructional staff services		502,824	365,182	359,976	315,784
Administration services		1,427,585	1,266,606	1,159,764	1,074,188
Operation and maintenance of plant services		1,299,206	1,341,401	1,221,855	1,103,173
Transportation services		706,862	671,070	687,517	572,696
Other support services		0	0	16,244	0
Non-instructional programs		0	1,978	0	0
Other expenditures:					
Facilities acquisitions		1,564,374	970,744	201,172	177,486
Long-term debt:					
Interest and other charges		97	0	0	0
AEA flow-through		573,992	533,042	499,208	509,098
Total	\$	16,683,666	15,309,992	13,905,217	12,933,383

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATIONS (non-cash)	10.550	FY 06	\$ 50,502
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 05	92,470
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 05	395,312
			<u>487,782</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1701-G	319,263
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1701-GC	18,955
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.011	1701-M	185,800
			<u>524,018</u>
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 06	<u>117,235</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 06	<u>25,264</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.151	FY 06	<u>8,426</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 06	<u>13,566</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (FIRE SAFETY GRANT)	84.215	FY 05	<u>6,489</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (IOWA DEMONSTRATION)	84.215	FY 03	<u>306,103</u>

DENISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
ENGLISH LANGUAGE ACQUISITION STATE GRANTS(TITLE III)	84.365	FY 06	<u>28,644</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 05	12,111
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 06	<u>75,824</u>
			<u>87,935</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI)	84.369	FY 05	<u>11,904</u>
TOTAL			<u>\$ 1,667,868</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Denison Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Denison Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Denison Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 24, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Denison Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Denison Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Denison Community School District and other parties to Denison Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Denison Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

August 24, 2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Denison Community School District:

Compliance

We have audited the compliance of Denison Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Denison Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Denison Community School District's management. Our responsibility is to express an opinion on Denison Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Denison Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Denison Community School District's compliance with those requirements.

In our opinion, Denison Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Denison Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Denison Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Members American Institute & Iowa Society of Certified Public Accountants

We noted a matter involving the internal control over compliance and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Denison Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Denison Community School District and other parties to whom Denison Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

August 24, 2006

DENISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - CFDA Number 84.215 – Fund for the Improvement of Education (Iowa Demonstration)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Denison Community School District did not qualify as a low-risk auditee.

DENISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We are always looking for ways to improve our internal controls and are willing to make changes that improve our situation.

Conclusion - Response accepted.

II-B-06 Checks Outstanding - We noted during our audit that the District had checks included in the General, Nutrition, and Activity Fund bank reconciliations which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be re-issued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - We will take appropriate steps to comply.

Conclusion - Response accepted.

II-C-06 Activity Fund Accounts - We noted that the Student Activity Fund has an elementary, middle school and high school faculty pop funds. These funds are not student run organizations, therefore they should not be in the Student Activity Fund.

Recommendation - The revenues can stay in the Student Activity Fund, but they have to be assigned to a certain student run organizations. If not assigned, then the faculty pop funds would more appropriately be handled through the General Fund.

Response - We would propose moving the faculty pop accounts to the agency accounting fund.

Conclusion - Response accepted.

II-D-06 Check Signatures - We noted during our audit, unauthorized signatures on the District's Agency Fund checks. Chapter 291.1 of the Code of Iowa requires the Board President and Board Secretary to sign all checks. Also pursuant to this section, the Board President may designate an individual to sign warrants on his/her behalf. However, the Board Secretary may not designate an individual to sign in their absence.

Recommendation - The District should review their procedures to ensure that the proper signatures are on all checks before sending them out, in order to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa.

Response - We have already made changes.

Conclusion - Response accepted.

II-E-06 Board Policies - We noted during our audit that the District's Board Policies need to be updated.

Recommendation - The District's Board Policies should be reviewed and updated at least every five years.

Response - We will look through the policies and update as needed.

Conclusion - Response accepted.

DENISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2006
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Federal Award Year: 2006
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 84.215: Fund for the Improvement of Education (Iowa Demonstration)
Federal Award Year: 2006
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We are always looking for ways to improve our internal controls and are willing to make changes that improve our situation. We do have a main operator for the bookkeeping computer but we are cross trained and receipts are initially accepted by a different person.

Conclusion - Response accepted.

DENISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District disbursements for the year ended June 30, 2006 exceeded the amount budgeted in the other expenditures program area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mark Johnson, Board Member Spouse is part owner of Bohlman, INC.	Property	\$18,000

In accordance with an Attorney General's opinion dated November 9, 1976, the transactions with the spouse of the Board Member do not appear to be a conflict of interest.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will review procedures to make certain all publishing dates are met.

Conclusion - Response accepted.

IV-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-J-06 Financial Condition - During our audit we noted that the District had negative account balances in the Student Activity Fund.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response - Annually we review balances and work with sponsors to meet the goal of a positive balance.

Conclusion - Response accepted.